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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

AB 3/23/06

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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

SEC FILE NUMBER  
8- 44397

**FACING PAGE**

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING January 1, 2005 AND ENDING December 31, 2005  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Direct Capital Securities, Inc.

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

1333 2nd Street Promenade

Suite 600

(No. and Street)

Santa Monica

California

90401

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Clay Womack

(310) 395-4224

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Breard & Associates Inc., Certified Public Accountants

(Name - if individual, state last, first, middle name)

9010 Corbin Avenue Suite 7

Northridge

CA

91324

(Address)

(City)

(State)

(Zip Code)

**CHECK ONE:**

☒ Certified Public Accountant

☐ Public Accountant

☐ Accountant not resident in United States or any of its possessions.

PROCESSED

JUN 08 2006

THOMSON  
FINANCIAL

FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

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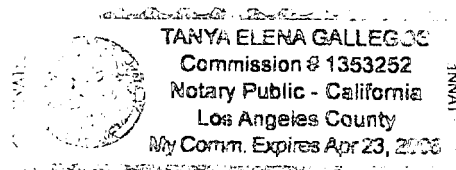
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## OATH OR AFFIRMATION

I, Clay Womack, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Direct Capital Securities, Inc., as of December 31, 2005, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

State of CA  
County of Los Angeles  
Subscribed and sworn (or affirmed) to before me this 31 day of December, 2005  
[Signature]  
Notary Public

[Signature]  
Signature  
President  
Title



This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss)
- ☒ (d) Statement of Changes in Cash Flows
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

Independent Auditor's Report

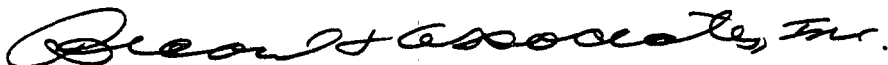
Board of Directors  
Direct Capital Securities, Inc.

We have audited the accompanying statement of financial condition of Direct Capital Securities, Inc. as of December 31, 2005 and the related statements of income, changes in stockholder's equity, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above present fairly, in all material respects, the financial position of Direct Capital Securities, Inc. as of December 31, 2005 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on Schedules I-III are presented for purposes of additional analysis and is not required as part of the basic financial statements, but as supplementary information required by rule 17a-5 of the Securities and Exchange Commission. Such information has been subject to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole and in conformity with the rules of the Securities and Exchange Commission.



Breard & Associates, Inc.  
Certified Public Accountants

Northridge, California  
February 17, 2006

***We Focus & Care<sup>SM</sup>***

9010 Corbin Avenue, Suite 7  
Northridge, California 91324  
(818) 886-0940 • Fax (818) 886-1924  
[www.baicpa.com](http://www.baicpa.com)

**Direct Capital Securities, Inc.**  
**Statement of Financial Condition**  
**December 31, 2005**

**Assets**

Cash and cash equivalents	\$ 326,186
Commissions receivable	243,976
Accounts receivable	26,991
Securities, not readily marketable	<u>825</u>
<b>Total assets</b>	<b><u>\$ 597,978</u></b>

**Liabilities and Stockholder's Equity**

**Liabilities**

Accounts payable	\$ 23,589
Commissions payable	224,458
Income taxes payable	<u>837</u>

<b>Total liabilities</b>	248,884
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**Stockholder's equity**

Common stock, \$.01 value; 3,300 shares authorized; 1,500 shares outstanding	15
Additional paid-in capital	844,231
Accumulated deficit	<u>(495,152)</u>

<b>Total stockholder's equity</b>	<b><u>349,094</u></b>
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<b>Total liabilities and stockholder's equity</b>	<b><u>\$ 597,978</u></b>
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*The accompanying notes are an integral part of these financial statements.*

**Direct Capital Securities, Inc.**  
**Statement of Income**  
**For the Year Ended December 31, 2005**

**Revenues**

Commissions	\$ 17,789,737
Interest income	28,675
Realized gains (losses)	(825)
Other income	<u>41,167</u>

<b>Total revenues</b>	17,858,754
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**Expenses**

Commissions and brokerage fees	11,854,074
Communications	10,741
Employee compensation and benefits	341,326
Management fees	1,825,000
Other operating expenses	<u>3,670,482</u>

<b>Total expenses</b>	<u>17,701,623</u>
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<b>Income (loss) before income taxes</b>	157,131
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<b>Income tax provision</b>	<u>10,389</u>
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<b>Net income (loss)</b>	<u><u>\$ 146,742</u></u>
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*The accompanying notes are an integral part of these financial statements.*

**Direct Capital Securities, Inc.**  
**Statement of Changes in Stockholder's Equity**  
**For the Year Ended December 31, 2005**

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
Balance, January 1, 2005	\$ 15	\$ 844,231	\$ (641,894)	\$ 202,352
Net income (loss)	<u>—</u>	<u>—</u>	<u>146,742</u>	<u>146,742</u>
Balance, December 31, 2005	<u>\$ 15</u>	<u>\$ 844,231</u>	<u>\$ (495,152)</u>	<u>\$ 349,094</u>

*The accompanying notes are an integral part of these financial statements.*

**Direct Capital Securities, Inc.**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2005**

**Cash flows from operating activities:**

Net income (loss)		\$ 146,742
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
(Increase) decrease in:		
Commission receivable	\$ (243,976)	
Accounts receivable	63,576	
Receivable from officer	9,000	
(Decrease) increase in:		
Accounts payable	(93,534)	
Commission payable	224,458	
Income taxes payable	<u>837</u>	
Total adjustments		<u>(39,639)</u>
Net cash and cash equivalents provided by (used in) operating activities		107,103

**Cash flows from investing activities:**

Expired warrants	<u>825</u>	
Net cash and cash equivalents provided by (used in) investing activities		825

**Cash flows from financing activities:**

	<u>—</u>	
Net increase(decrease) in cash and cash equivalents		107,928
Cash and cash equivalents at beginning of year		<u>218,258</u>
Cash and cash equivalents at end of year		<u><u>\$ 326,186</u></u>

**Supplemental disclosure of cash flow information:**

Cash paid during the year for:

Interest	\$ —
Income taxes	\$ 9,589

*The accompanying notes are an integral part of these financial statements.*

**Direct Capital Securities, Inc.**  
**Notes to Financial Statements**  
**December 31, 2005**

**Note 1: GENERAL & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*General*

Direct Capital Securities, Inc. (the "Company") was incorporated in the State of Delaware. The Company was originally incorporated under the name T.R. Winston Capital, Inc. on December 12, 1991. The Company is a registered broker-dealer in securities under the Securities and Exchange Act of 1934, a member of the National Association of Securities Dealers, Inc. ("NASD") and the Securities Investors Protection Corporation ("SIPC"). The Company is a wholly-owned subsidiary of TIC Capital Markets, Inc. (the "Parent").

The Company and its Parent are included in the consolidated federal income tax return filed by the Parent. Federal income taxes are calculated as if the companies filed on a separate return basis, and the amount of current tax or benefit calculated is either remitted to or received from the Parent. The amount of current and deferred taxes payable or refundable is recognized as of the date of the financial statements, utilizing currently enacted tax laws and rates. Deferred tax expenses or benefits are recognized in the financial statements for the changes in deferred tax liabilities or assets between years.

*Summary of Significant Accounting Policies*

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

For purposes relating to the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Company also includes money market accounts as cash equivalents.

Service fee revenue includes fees arising from facilitating offerings in which the Company acts as an agent. Fees are recorded when earned.

**Direct Capital Securities, Inc.**  
**Notes to Financial Statements**  
**December 31, 2005**

**Note 2: SECURITIES, NOT READILY MARKETABLE**

Securities, not readily marketable consist of 300 warrants in the NASDAQ Stock Market, Inc., these securities were offered primarily to NASD members and purchased through a Private Placement Memorandum. The warrants are exercisable in four tranches over four years. The first three tranches have expired. The Company has the remaining options to exercise in the following tranches:

		<u>Exercisable on</u>	<u>Expires on</u>	<u>Exercise Price</u>
Tranche 4	300 shares	June 28, 2005	June 27, 2006	\$ 16.00

The Company is carrying these warrants at their amortized cost of \$ 825

**Note 3: INCOME TAXES**

As discussed in note 1, the Company is a wholly-owned subsidiary of TIC Capital Markets, Inc., and is included in the consolidated income tax returns filed by its parent. A portion of the consolidated income tax liability is allocated to the Company as if the Company had filed separate income tax returns.

The tax provision of \$800 represents the minimum California tax.

**Note 4 : RELATED PARTY TRANSACTIONS**

The Company entered into a expense sharing agreement with its parent, whereby the parent is responsible for rent and marketing support and the Company is responsible for all payroll and telephone expenses. The agreement requires the Company to pay its parent a management fee. The management fee for the year ending December 31, 2005 was \$1,825,000.

**Note 5: COMMITMENTS AND CONTINGENCIES**

*Contingencies*

The Company is currently involved in an NASD arbitration. The arbitration involves the former employer of a group of independent contractors that were hired by the Company. The Company plans to vigorously defend itself in this arbitration, however settlement or damages may be incurred in the future associated with this arbitration. These financial statements contain no adjustment for any potential liabilities associated with this arbitration.

**Direct Capital Securities, Inc.**  
**Notes to Financial Statements**  
**December 31, 2005**

**Note 6: RECENTLY ISSUED ACCOUNTING STANDARDS**

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (revised 2004), "*Share-Based Payment*" ("FAS 123R"), which requires the measurement and recognition of compensation expense for all stock-based compensation payments including grants of employee stock options. Stock options are a valuable and important tool used by many companies as a means to motivate employees and promote business growth. This statement eliminates the ability to account for such share-based compensation transactions using the intrinsic value method as prescribed by Accounting Principles Board, or APB, Opinion No. 25, "*Accounting for Stock Issued to Employees*," and requires that such transactions be reflected in the financial statements based upon the estimated fair value of the awards. In addition, there are a number of other requirements under the new standard that will result in differing accounting treatment than currently required. These differences include, but are not limited to, the accounting treatment for the tax benefit on employee stock options and for stock issued under an employee stock purchase plan. FASB 123R becomes effective for all reports issued after June 15, 2005. Adoption of the new standard has not had a material effect upon the financial statements of the company.

**Note 7: NET CAPITAL REQUIREMENTS**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Net capital and aggregate indebtedness change day to day, but on December 31, 2005, the Company had net capital of \$284,629, which was \$268,037 in excess of its net capital of \$16,592; and the Company's ratio of aggregate indebtedness (\$117,123) to net capital was 0.87 to 1, which is less than the 15 to 1 maximum ratio required for a broker/dealer.

**Note 8: RECONCILIATION OF AUDITED NET CAPITAL TO UNAUDITED FOCUS**

There is a \$34,787 difference between the computation of net capital under net capital Sec. Rule 15c3-1 and the corresponding unaudited focus part IIA.

Net capital per unaudited schedule		\$ 249,842
Adjustments:		
Accumulated deficit	\$ 66,243	
Non-allowable assets	<u>(31,456)</u>	
Total adjustments		<u>34,787</u>
Net capital per audited statements		<u>\$ 284,629</u>

**Direct Capital Securities, Inc.**  
**Schedule I - Computation of Net Capital Requirements**  
**Pursuant to Rule 15c3-1**  
**As of December 31, 2005**

**Computation of net capital**

Stockholder's equity		
Common stock	\$	15
Additional paid-in capital		844,231
Accumulated deficit		<u>(495,152)</u>
Total stockholder's equity	\$	349,094
Less: Non-allowable assets		
Commission receivable, in excess of related payables		(19,518)
Accounts receivable		(26,991)
Securities, not readily marketable		<u>(825)</u>
Total non-allowable assets		<u>(47,334)</u>
<b>Net capital before haircuts</b>		301,760
Less: Haircuts and undue concentration		
Money market		<u>(17,131)</u>
Total Haircuts		<u>(17,131)</u>
<b>Net Capital</b>		284,629

**Computation of net capital requirements**

Minimum net capital requirements		
6 2/3 percent of net aggregate indebtedness	\$	16,592
Minimum dollar net capital required		<u>5,000</u>
Net capital required (greater of above)		<u>(16,592)</u>
<b>Excess net capital</b>		<u>\$ 268,037</u>

Ratio of aggregate indebtedness to net capital 0.87:1

There is a \$34,787 material difference in net capital computation computed above and that which was reported by the Company in Part II of Form X-17A-5. See Note 8.

*See independent auditor's report.*

**Direct Capital Securities, Inc.**  
**Schedule II - Computation for Determination of Reserve**  
**Requirements Pursuant to Rule 15c3-3**  
**As of December 31, 2005**

A computation of reserve requirements is not applicable to Direct Capital Securities, Inc. as the Company qualifies for exemption under Rule 15c3-3 (k)(2)(i).

*See independent auditor's report.*

**Direct Capital Securities, Inc.**  
**Schedule III - Information Relating to Possession or Control**  
**Requirements Under Rule 15c3-3**  
**As of December 31, 2005**

Information relating to possession or control requirements is not applicable to Direct Capital Securities, Inc. as the Company qualifies for exemption under Rule 15c3-3 (k)(2)(i).

*See independent auditor's report.*

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**Direct Capital Securities, Inc.**  
**Supplementary Accountant's Report**  
**on Internal Accounting Control**  
**Report Pursuant to 17a-5**  
**For the Year Ended December 31, 2005**

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Board of Directors  
Direct Capital Securities, Inc.

In planning and performing our audit of the financial statements and supplemental schedules of Direct Capital Securities, Inc. for the year ended December 31, 2005, we considered its internal control structure, for the purpose for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission, we have made a study of the practices and procedures followed by Direct Capital Securities, Inc. including tests of such practices and procedures that we considered relevant to objectives stated in rule 17a-5(g), in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making the quarterly securities examinations, counts, verifications and comparisons
2. Recordation of differences required by rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the Commission's above mentioned objectives. Two of the objectives of an internal control structure and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

i

***We Focus & Care<sup>SM</sup>***

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Northridge, California 91324  
(818) 886-0940 • Fax (818) 886-1924  
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Because of inherent limitations in any internal control structure or the practices and procedures referred to above, errors or irregularities may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure, including procedures for safeguarding securities, that we considered to be material weakness as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission to be adequate for its purpose in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate material inadequacy for such purposes. Based on this understanding on our study, we believe that the Company's practices and procedures were adequate at December 31, 2005 to meet the Commission's objectives.

This report is intended solely for the use of management, the Securities and Exchange Commission, and other regulatory agencies which rely on rule 17a-5(g) under the Securities Exchange Act of 1934 and should not be used for any other purpose.



Breard & Associates, Inc.  
Certified Public Accountants

Northridge, California  
February 17, 2006